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Editorial Comment . . .

Direct Costing

More than usual interest of late has been shown in the above subject.

Several papers were presented at the last N.A.C.A. conference and recently research bulletin No. 23 of the Association dealing with dircet costing was issued. A few years back a book on Marginal Costing under the authorship of Lawrence and Humphrey of the Institute of Cost and Works Accountants was printed. This effort also directed the thinking of accountants along the lines of direct costing principles. Both booklets are reasonably exhaustive and well worth reading.

Chapters in our Society have realized the trend, and Direct Costing is discussed in their meetings, e.g. George Moller's address to the Niagara Chapter (see March 1953 issue of the Canadian Chartered Accountant) and the 1953-54 programme of several chapters.

It is fairly obvious from a perusal of the current literature that, not only is interest widening but the subject is fated to become one of those which you are violently and enthusiastically for or stubbornly against.

There are as many definitions as there are authorities on the subject but basically it is a segregation of manufacturing costs, in the accounts, between those which are fixed and those which vary directly with volume. The information thus revealed is used as a basis for income measurement and pricing.

Research bulletin No. 23 makes a survey of the method and uses of direct costing. The difficulties of determining fixed and variable cost components is pointed out.

There is essentially no difficulty in applying the method in the books of account. Proponents of standard costs will find themselves on familiar ground with the exception that the useful and well known volume variance is missing.

In another set of words direct costing is the application of break-even technique to routine accounting practice.

The unending question for the Industrial Accountant is "How much more or less will it cost if we do this instead of that?" The answer to this question on individual cost problems for products or methods confronts every accountant most of the time.

Does direct costing assist in giving a clearer and quicker result to this question? This is more important than long discussions of technique and method.

The essence of direct costing or marginal methods of computing profits is that the difference in cost between two alternative plans involving volume is the difference in total variable cost. This is mathematically true and all intelligent accountants would agree to cost alternatives being presented with that principle in mind.

Whether or not they would agree to shaping the entire accounting method for this end result with no regard to individual requirements is an open question. The accountant's duty is to provide the facts and figures that enable management to perform the tasks of organization, administration and operation easily and efficiently. To do this he must use both the science of accepted and proven accounting method and the art of intelligent interpretation.

From his own immediate considerations some attention should be given to the effect of any new technique on asset and profit determinations over a period of years. Any change of such a drastic nature as complete application of direct costing should be carefully examined for its effect on inventory and profits. Direct costing, obviously does change presently accepted conceptions of inventory valuation, excluding as it does all fixed charges. It may mean a change in actual amounts of profit in years where production is more dominant than sales. Charts showing comparative P & L's demonstrate that absorption costing produces a different profit than direct costing in year of varying sales and productive effort.

There are of course other forces that may influence the accountant's acceptance or usage of a new method. Management itself has opinions and thoughts on how it wishes to be served by its accounting experts. Fortunately our advice is usually taken, but most accountants are only too aware of the practical limitations on doing everything the way they wish.

The legislative bodies usually manage to have something to say in the method of profit determination by way of tax rulings and it is wise to understand how a new method will affect the government thinking.

Any accounting principle which throws a clean light on that complex business of overhead is of major importance, and direct costing does this in admirable fashion. Changes in sales volume have always done strange and weird things to overhead and most accountants sound extremely queer to the manager when they attempt to explain what is happening to costs in a falling sales period. Direct costing or marginal approaches do help in this matter. Good accountants and top business management use the technique more often than they are given credit for. They do it however, usually by way of separate studies.

Direct costing undoubtedly has great benefit in understanding sales volume change and its effect on overhead. However, it is not yet a generally accepted accounting practice for the valuation of inventories and annual profit determination.

It is most important though, that every industrial accountant be familiar with the literature and present thinking on direct costing to see if its principle and method lend itself to his particular problems. It is a new thought and if we wish to keep our costing technique progressive each of us should be interested in adding our individual experience to the already large contribution made to the direct costing technique.

C & M Round-Up . . .

By N. R. Barfoot, R.I.A.

Annual Health Cost

During 1951 a total of $373.8 millions were paid out for health services in Canada according to a recent government survey.

The following breakdowns of this figure may prove interesting:

. . . Prepaid Medical and Hospital Plans	88.4 millions
. . . Hospital Care (Direct and Prepaid)	90.5 millions
. . . Direct Payments to Doctors	99.5 millions
. . . Drugs	73 millions
. . . Dental Services	32.9 millions
. . . Eye Service and Glasses	14.1 millions
. . . Appliances	2.3 millions

Out of a total of 4,555,000 family units in Canada, 621,000 had no expenditure and the average cost per unit was $82.10.

Of this $82.10 total $19.50 went on prepaid medical plans, $44.60 for direct payments or services, $16.50 for drugs and appliances and $1.50 for other service goods and medical care.

Who Owns Canada?

With the reported large foreign investments in the last few years in Canada it may be thought that Canadian investment in Canada is diminishing.

It is perhaps reassuring to learn that a generation ago the net foreign investment from all sources in Canada was 20% of our national wealth. Today the same figure is less than 5%.

In the synthetic and petro-chemical fields there is a large U.S. investment. However, enormous native investments are taking place all the time. Profits are being plowed back into expansion continuously and many American branches are becoming Canadian owned either directly or through listing of the shares of the parent concerns on the Canadian Stock Market.

U.S. interests have 8 billions invested in Canada. We have, however, 1.3 billions invested in the United States and a total of 3.7 billions in all foreign investments.

Newfoundland

How much do you know about this historic land and its potential wealth?

Here are some current and comparative statistics:

. . . Population	1945	321,819	—up 12%
	1951	361,416	
. . . Net Value of Manufactures	1949	33	millions—up 36%
	1951	45	millions
. . . Net Value of Production	1949	74.9	millions—up 28%
	1951	96	millions
. . . Bank Clearings	1949	357	millions—up 55%
	1951	554	millions

The natural resources of Newfoundland are of course phenomenal, and arise from forests, mines and the sea.

This year will see 14 major companies engaged in mineral exploration work.

A total value of over 28 millions in metals was produced in 1952.

The following breakdown gives the picture.

	Production	*Value*
. . . Copper (thous. pounds)	5,697	1.6 million
. . . Gold (oz.)	8,030	.3 million
. . . Iron Ore (thous. tons)	1,635	8.7 million
. . . Lead (thous. pounds)	36,697	6 million
. . . Silver (thous. ozs.)	585	.5 million
. . . Zinc (thous. pounds)	64,112	11.2 million

In addition fluorspar and gypsum to the extent of 2.5 millions was produced. Structural materials such as cement, lime and stone to the value of 2.2 millions was also quarried and manufactured in 1952.

A modernization of the fishing industry is under way which plans to build up a fleet of large modern boats using the most modern fishing gear. Artificial drying is also planned.

Capital investment in manufacturing and utilities for 1953 will amount to 14 millions, of which 12.6 millions will be for primary industries and the construction effort.

Since 1949 the C.N.R. has spent nearly 30 millions in improving and expanding rail lines, rolling stock, coastal steamers, and telegraph and telephone communications. This to take care of the expanding economy. The 1952 freight tonnage was 1,350,000 compared to 850,000 tons in 1949.

All points to the obvious fact that Newfoundland is in a steady period of expansion.

Foam Rubber

The rubber industry's sales line up, in order of importance reads — tires, footwear, industrial products and fourth — foam rubber.

However, the sales potential of this new creation may well be greater than any other rubber product, since it aims at the home consumer market.

Canadian sales in 1953 will be 60% greater than 1952. In the U.S. a pound per person is being sold this year.

Most of the uses add up to more comfort for the individual. It is light, tough and porous.

Main uses are, padding of sharp surfaces, mattresses, pillows, under rug pads, furniture cushioning, powder puffs, and shoe cleaners. Most new cars and new railway cars are equipped with it.

Business Libraries*

Do you have a library in your business? If so, what is the state of it? Here is what a formal business library can do for you:

. . . Keep individual records of executive interest and directing relevant clippings or article digests through appropriate channels.

. . . Supply educational and recreational reading matter for employees. A house organ column usually publicizes this activity.

. . . Clip and file important articles to supplement books with up-to-the-minute information.

. . . Organize rotating travelling library boxes within a widely dispersed company operation.

The type and quality of a library supplying the above service of course requires adequate space, a librarian and library facilities.

The majority of Canadian business libraries are in Toronto, — 104, and Montreal — 80.

Most companies organize the library as a separate compact staff function. This intentionally severs the service from line organization and promotes good service to all sections of the concern.

Micro filming and other record keeping can be combined with regular library functions.

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*Editor's Note: South-Western Publishing Co. has published a small book (107 pages), "How to Use a Business Library", with Source of Business Information by H. Webster and S. W. McFarland. A limited number of copies are available from the Society office on request.

Current Articles of Interest . . .

A compilation of current articles available to members, on loan from the library of the Society.

ACCOUNTANTS

ACCOUNTANT AND ENGINEER: WORKING PARTNERS, by A. E. Carlson — N.A.C.A. Bulletin — Aug. '53, Sec. 1.

THE ACCOUNTANT'S PART IN A COMPETITIVE ECONOMY, by Edmund T. Price — N.A.C.A. Bulletin — Jul. '53, Sec. 3.

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ACCOUNTING AND MANAGEMENT, by John Myer — Irish Accountant and Secretary — May '53.

ACCOUNTING DATA FOR CONTROL PURPOSES, by John Neter — The Controller — Aug. '53.

ACCOUNTING FOR DIVIDENDS, by Edward P. Sine — The Accounting Review — Jul. '53.

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ADMINISTRATIVE EXPENSES

ALLOCATING ADMINISTRATIVE EXPENSE TO DIVISIONS, by W. T. Belyea — N.A.C.A. Bulletin — Aug. '53, Sec. 1.

ADVERTISING

ADVERTISING EXPENSE ACCOUNTING AND CONTROL, by G. M. Harold — N.A.C.A. Bulletin — Aug. '53, Sec. 1.

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SOME MORE NOTES ON THE BOND YIELD PROBLEM: SERIAL BONDS, by Ralph W. Snyder — The Accounting Review — Jul. '53.

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COST STANDARDS IN SMALL HOME CONSTRUCTION, by J. E. Shirley — N.A.C.A. Bulletin — Jul. '53, Sec. 1.

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THE CONTROLLER IN A WORLD OF CHANGE, by Robert E. Gross — The Controller — — Jul. '53.

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THE ROLE OF COST ACCOUNTING IN COST CONTROL, by Lewis R. Crum — The Accounting Review — Jul. '53.

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ANALYSIS VERSUS INTERPRETATION OF COST, by Michael Albery — The Accounting Review — Jul. '53.

RECORDS TELL HOW MUCH ACCIDENTS COST US, by H. K. Hilton — Factory Management and Maintenance — Aug. '53.

THE VALUATION OF ACCOUNTS AT CURRENT COST, by Myron J. Gordon — The Accounting Review — Jul. '53.

DEPRECIATION

DEFERRED DEPRECIATION REVIEWED, by M. W. Sharp — Canadian Tax Journal — May-June '53.

DEPRECIATION IN TIMES OF INFLATION, by J. J. Morgan — The Accountants' Journal — May '53.

DIRECT COSTING

HOW DIRECT COSTING WORKS FOR SMALL MANUFACTURERS, by Oswald Nielsen, C.P.A. — The Journal of Accountancy — Aug. '53.

WHAT CAN WE EXPECT OF DIRECT COSTING AS A BASIS FOR INTERNAL AND EXTERNAL REPORTING? by Herman C. Heiser — N.A.C.A. Bulletin — Jul. '53, Sec. 3.

WHAT CAN WE EXPECT OF DIRECT COSTING AS A MANAGEMENT TOOL? by Paul C. Taylor — N.A.C.A. Bulletin — Jul. '53, Sec. 3.

EDUCATION AND TRAINING

ACCOUNTING EDUCATION — FROM THE POINT OF VIEW OF THE EMPLOYER, by Robert G. Knight — The Accounting Review — Jul. '53.

ACCOUNTING EDUCATION — FROM THE VIEWPOINT OF A MEMBER OF A STATE BOARD OF ACCOUNTANCY, by A. Frank Stewart — The Accounting Review — Jul. '53.

COLLEGE TRAINING FOR CONTROLLERS' DEPARTMENTS, by Frank P. Smith — The Controller Jul. '53.

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PROBLEMS AND MODES OF FINANCING AMERICAN BUSINESS, by Roy L. Reierson — The Controller — Jul. '53.

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PREPARING CONSOLIDATED STATEMENT FOR MANAGEMENT, by E. J. Erp — The Controller — Aug. '53.

PRESENTATION OF ACCOUNTS FOR PUBLICATION, by G. L. Allard, F.C.A. (Aust.) — The Chartered Accountant in Australia — May '53.

FORECASTING

BUSINESS FORECASTING, by C. E. Sutton, F.C.W.A., A.S.A.A. — The Cost Accountant — Jul. '53.

FOREIGN EXCHANGE

FOREIGN EXCHANGE MARKET IN CANADA, by Sidney Turk — The Canadian Chartered Accountant — Aug. '53.

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THE FOUNDRY PROBLEM: COSTS FOR PRICING, by A. C. Sinnett — N.A.C.A. Bulletin — Jul. '53, Sec. 1.

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CONTROLLING COSTS WITH INCENTIVES, by G. E. McCarthy and J. J. Plocar — Factory Management and Maintenance — Jul. '53.

INCENTIVES FOR MIDDLE MANAGEMENT, by J. E. Heidgen and H. Davis — Factory Management and Maintenance — Jul. '53.

INCENTIVES FOR SUPERVISORS, by Robert S. Rice — Factory Management and Maintenance — Jul. '53.

INDUSTRIAL ORGANIZATION

THE COMPANY DIRECTOR: HIS FUNCTIONS, POWERS AND DUTIES — The Accountants' Journal — June '53.

CURRENT ARTICLES OF INTEREST

FACTORS INFLUENCING ORGANIZATIONAL EFFECTIVENESS, by A. L. Combrey, J. M. Pfiffner and H. P. Beem — Management Guide — Number 52.

INVENTORIES

INVENTORY ACCOUNTING FOR ATOMIC ENERGY PROCESS MATERIALS, by Ed Hall — The Journal of Accountancy — Jul. '53.

SIX STEPS TO BETTER INVENTORY MANAGEMENT, by H. F. Dickie — Factory Management and Maintenance — Aug. '53.

SOME NOTES ON ACCOUNTING RESEARCH BULLETIN 29 — INVENTORY PRICING, by Joseph A. Mauriello, C.P.A. — The N.Y. Certified Public Accountant — Jul. '53.

LABOUR

ARBITRATING INDUSTRIAL EFFICIENCY, by A. Howard Myers — Harvard Business Review — Jul. - Aug. '53.

FINANCIAL STATEMENTS IN COLLECTIVVE BARGAINING, by Solomon Barkin — The N.Y. Certified Public Accountant — Jul. '53.

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COSTING FOR MANAGERIAL GUIDANCE, by A. V. Madge, R.I.A. — Business Management — Jul. '53.

EVASIVE TRIAL BALANCE ERRORS — Irish Accountant and Secretary — May '53.

OPERATIONS RESEARCH FOR MANAGEMENT, by Cyril C. Herrmann and John F. Magee — Harvard Business Review — Jul.-Aug. '53.

WHAT CAN WE EXPECT OF DIRECT COSTING AS A MANAGEMENT TOOL? by Paul C. Taylor — N.A.C.A. Bulletin — Jul. '53, Sec. 3.

MATERIAL CONTROL

IMPORTANT MATERIALS HANDLING IDEAS — Factory Management and Maintenance — Aug. '53.

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VERTICAL INTEGRATION IN THE OIL INDUSTRY, by James S. Cross — Harvard Business Review — Jul.-Aug. '53.

PAPER, PAPER PRODUCTS AND PULPWOOD

BETTER PULPWOOD COSTS FOR THE SMALL OPERATOR, by R. H. Van Voorhis — N.A.C.A. Bulletin — Jul. '53, Sec. 1.

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SUPERANNUATION AND PENSION SCHEMES, by L. B. Wright — The Australian Accountant — May '53.

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PRICE POLICY IN NATIONALIZED INDUSTRIES, by J. F. Sleeman, M.A. — The Accountants' Magazine — Jul. '53.

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SIMPLIFIED COST SYSTEM FOR A PRINTING SHOP, by Jesus B. Tayag — The Accountants' Journal — June '53.

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PIONEERING IN NATURAL GAS PRODUCTION COSTS, by R. D. Demme — N.A.C.A. Bulletin — Aug. '53, Sec. 1.

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MORE DEFINITIVE CONCEPTS OF PERIODIC INCOME MEASUREMENT, by Arsenio D. Narciso — The Accountants' Journal — June '53.

THE RELATION OF LAW AND ECONOMICS TO THE MEASUREMENT OF INCOME, by Arthur H. Dean — The Accounting Review — Jul. '53.

VARIETY IN THE CONCEPT OF INCOME, by A. C. Littleton, C.P.A. — The N.Y. Certified Public Accountant — Jul. '53.

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WHY NOT USE ACCOUNTING TERMINOLOGY? by Robert A. Miller — N.A.C.A. Bulletin — Aug. '53, Sec. 1.

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TIME CONTROL OF TRUCK DELIVERY OF BULK MATERIAL, by T. C. North — N.A.C.A. Bulletin — Jul. '53, Sec. 1.

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N.A.C.A. Bulletin, 505 Park Ave. (Fourth Floor), New York 22, N.Y.
Harvard Business Review, Gallatin House, Soldiers' Field, Boston 63, Mass.
Business Management, 100 Simcoe St., Toronto 1, Ont.
The Accountants' Magazine, 27 Queen St., Edinburgh 2.
Canadian Tax Journal, 191 College St., Toronto 2B, Ont.
Management Guide, 516 Fifth Ave., New York 36, N.Y.
Business Week, McGraw-Hill Publishing Co. Inc., 330 West 42nd St., New York 36, N.Y.

Management's Planning in Industrial Relations for Tomorrow . . .

By R. P. Pattee,
*Assistant to the General Manager,
Canadian Tube & Steel Products Limited, Montreal, P.Q.*

Every day, Industrial Relations assume magnified importance in the eyes of Management. What can be expected in the future and what methods can be utilized by Management to cope with these problems? In this article, the author discusses the past, present and future of Industrial Relations and suggests an approach for the present, which should enable Management to carry on intelligent and understanding Industrial Relations in the future.

IN APPROACHING this subject I believe we should first look back into its history before we try to glimpse its future. To follow the procedure of the clairvoyant, I should obtain as much background information as possible and then with all my senses concentrated, take a long steady look into the crystal ball. Sometimes it is possible to project upon its surface the pattern that will, like history, repeat itself. I only hope that my interpretation of this pattern will not prove too misleading.

The ushering in of the twentieth century brought with it many boons to mankind, but it also brought many headaches. The advent of the scientific Management movement posed a new threat to collective bargaining, job standardization and time and motion study technique were supposed to remove all disputes as to what constituted a fair day's work. The traditional disputes between Unions and Management were now to be solved scientifically by a group of independent judges — the Efficiency Engineers.

Another threat to collective bargaining, and by far the more serious, was the advent of the Employee-Representation movement. This was considered by the Union to be a Management weapon to keep them out. It was represented as being a form of collective bargaining, without the unsavoury activities associated with Unions, such as strikes, lockouts, picketing and violence, but in actual fact it was a form of grievance committee, which gave Management an opportunity to hear from and communicate with its employees but denied them an adequate weapon of defense. This new management philosophy set the Union battling hard but it remained for the Railway Brotherhoods in the United States to establish the precedent shattering concessions of "outside" representation to obtain effective legal protection for collective bargaining in 1926. Some ten years later the National Labour Relations Act guaranteed the right of employees to form into Unions, and to engage in concerted activity, including strike activity, without fear of employer reprisal, and at the same time required the employer to recognize and bargain with the Unions.

This legislation made the old employee-representation organizations illegal, and the Unions were quick to realize that these organizations constituted effective nuclei for the new Unions, with the result that by 1947 48% of all industrial workers were covered by collective agreements as compared with 10% in 1932. Thus the employee-representation organization turned out to be a double edged sword. Now that labour had obtained for itself recognition through the Unions, and was in a position to determine the conditions of employment equally with management, a certain balance of power was reached between the contending parties. Governments, both Federal and Provincial, in the meantime were setting up the necessary labour legislation and administrative machinery to deal with the new problems as they arose, and acted as the final arbiter of disputes.

This brief resume brings us to the present. In summarizing what has been said, it would seem that the three most significant changes have been; first: the growth of the labour union; second: the entry of Government into Labour-Management negotiations and, finally: the attainment by the labour force of a considerable degree of economic security.

Physiological or Psychological Needs — Which?

Let us now examine why many of the disputes between the parties are not being resolved satisfactorily. It is my contention that however much Management is willing or is forced to concede to the Union concerning the physical well-being of the employees, it will not be enough if it continues to deny the psychological needs of its labour force.

Man is a very complex being with very complex needs. Some of his needs are physiological in nature; the need for food and sleep, etc.; others relate to sex and procreation; others — and the ones most commonly neglected — are psychological, such as the need for recognition and self respect. Professor Carter Nyman terms this "Psychological Adequacy".

Management has often failed to realize that you can give a man a good living wage, good working conditions, paid vacations, pensions and insurance plans, but he will not be satisfied unless you give him an opportunity for freedom of expression, recognition of his ability and a sense of pride and worthwhileness in his job. A major reason for the drift towards unionization is that modern industrial techniques have taken away from the worker his pride of workmanship. The majority of jobs today require few aptitudes, little craftsmanship or experience to satisfy a man's ego, or on which he can rely if he should desire or need to transfer to another location or industry. Because of this limitation imposed upon him by modern methods of production, the worker is forced to find some other means of obtaining emotional security and

job satisfaction. All the things that might have been of real personal value to the employee have been factored out of the job by the industrial engineer.

The job has been broken down into the simplest motions possible, and has been made highly repetitive. Because the motions have been made simple there is little or no need for skill. The pace at which he works is set by the machine or production line — not by the worker. The tools and work procedure have been set up for him by the engineers, who also make any changes.

He works on only a fraction of the whole product. The length of the cycle and the attention required gives little opportunity either to become absorbed in the work or to think about other things that might afford him some mental relaxation.

The difference in skills between jobs has been all but eliminated (the Unions have also encouraged this trend in collective bargaining) with the result that there are no distinct promotion steps he can climb.

In other words, the machine comes first and the man is being geared to it with little consideration for the social costs to the workers involved. With such a situation it is easy to appreciate the statement of W. L. Warner and J. O. Low in their book "The Social System of the Modern Factory". I quote: "Workers have forgotten their pride in their separate jobs; have dismissed the small differences between them, and have united in Industrial Unions with tens and hundreds of thousands of workers throughout the country combining their strength to assert their interest against Management", unquote.

What then are their real interests? Better working conditions? Better rates of pay? Greater security? Hospitalization and disability benefits? Pensions? Shorter working hours? Many employees have obtained and enjoy all of these in a measure far greater than other workers in the same locality, but are they any more satisfied? Does their Management receive fewer grievances, and are the Union's demands at the bargaining table any more reasonable? A lot will depend upon Union-Management Relations, but all things being equal, I doubt if there is a significant difference.

The Union Leader

So far we have concerned ourselves with the worker at the workbench or machine but what about the Union Leader? Should we consider him the same as the employees whom he represents? I would suggest that labour leaders are not employees, but are the equal of the business executives with whom they deal — no, I had better qualify that — in all respects except one. The majority of Union Leaders today have large incomes, they have influence and they have considerable power which they are not afraid to use. The Union Leader organizes, controls and directs hundreds and thousands of men and has a fair sense of his own importance very much the same as the Business

Executive, but is he well adjusted to his comparatively new environment? It is my opinion that he is not. Let me quote Mr. A. A. Imbirman's article "Personalities In Labour-Management Conflicts" in which he says, in part, I quote: " . . . despite his wealth and power, the fruits of his position are denied to him. Anywhere he goes outside of his circle, he finds only a depressing inferiority, only a chilling half welcome . . . newspapers generally treat him editorially as something satanic, all or mainly because employers set the major culture patterns of our American civilization, and employers have no use for labour leaders. The whole outlook of our culture — as far as Union leaders are concerned — stems from the employer's point of view", unquote. Like the employees at the workbench, his needs are being met but no attention is being paid to his psychological needs. Generally speaking, he has become a misfit, looked up to by the employees and looked down upon by the employers.

All men are born equal or so the declaration of independence states but we soon learn that George Orwell had something when he suggested in his satire "Animal Farm" that "all animals are equal, but some are more equal than others".

The Social environment in which the union leader is required to exist reacts upon him, and consciously or unconsciously he retaliates. His personal frustrations are brought to the bargaining table in the form of arbitrary and capricious demands, or by the use of other tactics designed to harass the employer. We are not always bargaining around a table with Union representatives whose only interest is the welfare of the employee but very often with one who desires to vent his personal animosity against the social system as represented by Management.

If we are to eliminate this area of conflict, and are to benefit from our past experience, then we should accept and respect the Union Leaders as we have learned to accept and respect political and religious leaders whose faiths have been developed in environments different from our own.

Are Profit Sharing Plans the Answer?

Now, let us take a look at one of the devices used by Management to give the employee at the workbench a sense of loyalty and of identification with the business. For example, let us consider profit sharing plans. A lot has been written and said recently to suggest that profit sharing has failed in its objective, namely, to get the general body of the managed to have faith in the honesty of purpose of the Management, and to create within it an interest in the enterprise. If these plans have failed, then we should junk them and find something else. However, I believe it is necessary to investigate them further to ascertain the reason for their failure. The majority of the profit sharing

plans that failed may have done so because they appealed to the physical and not the psychological needs of the employees. The employees received a "handout" but had no part in the decisions affecting the making of profits. He was expected to follow instructions, and if business was favourable and Management did not make too many mistakes, then he could be expected to be handed a bonus at some future date. In other words he became a profit receiver but was not recognized as a profit earner. We appealed to his pecuniary motives but did not tap the other motive he would satisfy — recognition by Management — a feeling of control over events which affect him. Profit sharing can succeed only when workers are integrated with the business beyond the point of receiving cash benefits. How is this possible? Have we any evidence to prove that integration of this kind will be effective? In what areas has it been tried?

Non-Monetary Incentives

It is an almost universally accepted fact that if we are to improve our standard of living we must improve our productivity both individually and collectively by all the means available to us. It is also true that greater productivity is to the benefit of the Shareholder, Management, Labour and the Consumer alike, because the larger the cake the bigger the slice each one gets, assuming the present ratio is maintained. I don't intend to discuss here the division of that cake, all I want to do is to find out what methods can be used to increase productivity.

Can this be done:

(1) By getting better industrial engineers to develop better methods?
(2) By designing better machines and equipment?
(3) Or is there some other way?

We have spent and are spending a considerable amount of money on items one and two, and much good has come from it. There is, however, another method that would be less costly, and at the same time show better results.

By the release of the bottled up energy and intelligence of the rank and file worker we can greatly increase our productivity. How do we go about it? How do we get this co-operation that Management has spent so much time, energy and money trying to obtain for over half a century? I suggest an answer to that is by appealing to the worker's need for self expression, and by giving him a say in those matters which are of personal value to him.

The Scanlon Plan

I should like now to describe a plan that has released this productive energy — a plan with which some of you may be familiar:

namely, the "Scanlon" Plan. "Scanlon" was an industrial engineer, a cost accountant and a steelworker before he became the President of a Local Union in the C.I.O. In 1937, the Company whose employees "Scanlon" represented, was in a poor competitive position, and faced possible liquidation. He got together with the President of the Company, and after receiving advice, they decided that by tapping the ideas and experience of the employees they could be induced to contribute toward quality improvement, cost reduction and productivity increase. By utilizing this new source of productivity energy, it was possible to bring the Company from the brink of disaster to a state of solvency.

As little or no money was available to modernize the plant, what were the sources of producitivity increases?

(1) Many old ideas that had not been implemented were re-examined and became readily acceptable once they were identified as workers' suggestions.

(2) Many of Management's ideas were improved upon by having them freely discussed with the people affected by them, — (the old idea that no one of us is as smart as all of us).

(3) The real nature of the problems arising whether within a department or plant as a whole, were communicated to the people involved and by group effort effective solutions were found.

(4) Management's performance of its own functions was improved upon because it had more reliable and better information on which to base its action.

It is a very simple formula, and one that has obtained some remarkable results. It is a formula that can be utilized wherever Management's and Labours interests are not in direct conflict. Of course, obstacles had to be overcome on all sides. A few of the more notable ones are worthy of your attention:

(1) The individual worker had to be persuaded to adopt a constructive attitude.

(2) The Union had to be induced to co-operate whole-heartedly with Management.

(3) Management had to be persuaded to give up some of its prerogatives.

(4) A plan had to be devised whereby the profits accruing from increased productivity could be shared equitably by all parties and one that would at the same time provide an incentive to continue the co-operative effort.

These obstacles were not overcome without considerable effort, but they were overcome because the parties approached the problem with understanding, good faith and mutual trust.

"Productivity Through Participation"

I should like to tell you about a Human Relations Training Programme which has been in operation in our Company for the past two years. We felt that our "Productivity Through Participation" training should start with the Management Group, and this included Management personnel at all levels — from top to bottom and, in fact, includes as well some 20% potential supervisory personnel. We were careful to select a training supervisor who is keenly enthusiastic and one who is, after many years with the Company, well acquainted with our supervisory personnel and their Shop problems. Sessions are scheduled monthly to cover all phases of good supervisory techniques and Company problems among Management personnel in groups of 12 to 14 at a time. In these sessions, we employ every training technique that is of a participating nature, such as the conference discussion, guided and unguided, by which conclusions are reached by the supervisors themselves. We employ the role-playing method as the opportunity arises, and in some instances use this method to arrive at the solution of a problem which was chosen by the group themselves after some discussion. Recently we developed the use of the case study technique, which, as you know, is widely used by The Harvard School of Business Administration, and the supervisors study and discuss a Company experience. They do not necessarily arrive at a solution, but are helped to develop the ability to think for themselves and to realize that a problem may have many solutions depending upon the circumstances and the people involved. Through our training programme we are now more convinced than ever that through the development of a co-operative Management, we can best reach the psychological needs of the Labour Leader and the worker.

Training, we believe, must be a continuing process resulting in a gradual improvement. Concurrently with the training programme we embarked upon a programme of sports and social activities to further our aims toward total participation. We are careful to provide representation of Management and Labour at our social functions which are planned and organized by all three groups.

About 18 months ago we organized, as a result of our training programme, Labour-Management Production Committees across the plant, each of which has equal representation of Management and Labour who meet every six weeks to promote ideas from the workers which will reduce costs, or improve productivity. These meetings are under the direction of the Training Supervisor. We have every reason to believe that our programme is designed to meet the psychological needs of our employees, and there is much evidence to support the fact that results are being obtained — in varying degrees — in all areas. Our Superintendents and Foremen, we feel, are coming to realize that there are many human factors involved in achieving productivity.

They are learning to handle all sorts of situations with a higher degree of intelligent action without loss of prestige, and without loss of employee morale. Our foremen, through regularly meeting together, are better known to each other individually, are more familiar with each other's problems, their skills and their techniques. Our supervisors meet on common ground to discuss Company policies, and in many instances have found them in need of clarification, or change, or even scrapping. Changes in procedures are nearly always the subject of discussion among those personnel concerned or affected. Such changes we have found to be implemented with greater ease and less expense, and they work because they were developed by the people who are affected by them. We have noticed an increase of confidence in making decisions and accepting responsibilities. There is less avoidance of the unpleasant task. Merit ratings of employees are today the subject of informal discussion between the foreman and the employee. This we would not have dared to do two years ago. The great bulk of our salaried personnel no longer punches a time clock with the result that morale has improved. New jobs are posted on the notice board for application by the employee — a development of a series of discussions in our Conference Room. Departmental cost sheets are to be distributed to respective foremen for their perusal and study once we have had discussion sessions on the subject. This privilege was formerly restricted to higher level supervisors.

You may be wondering how, by concentrating our training at the Management level, we expect to obtain co-operation from the Labour Leader and the worker. First of all, top labour representation has been included in many of our programmes, particularly in the area of Human Relations. As for line supervisors, it has been our experience that as confidence in our programme has developed, they are no longer reluctant to introduce the psychological desires of the workers, and in many instances they recognize them to be psychological needs of their own. The process is slow, admittedly. There are many obstacles along the way, and all criticism is not constructive. However, we can sense an overall improvement and those who initially opposed the system finally tend to accept the principles as upheld by the majority.

I have very briefly outlined the rise of the Unions, and have suggested that their growth coincided with the withdrawal of the individual's opportunity to demonstrate his skill. I have tried to show that we are grasping the wrong nettle when we concentrate on the financial rewards for labour. I have given an example of a method used to try to integrate the worker with the business, and indicated why it often fails. I have described two other methods that try to do the same thing, and firmly believe that they might succeed because the integration goes beyond the point of financial recognition. I have given

you my first hand experience with a training programme that aims to give the rank and file employee an opportunity to express himself.

International Environment in the Future

With one exception, the stage is now set for us to take a look at that crystal ball. We have not yet decided what the backdrop is going to be. With a few brief strokes I will try to fill it in. Remember, I'm just that ordinary fellow from another city. Gone are the days when we had only to interest ourselves in the local scene. The canvas has stretched to enormous proportions, so much so that someone shedding a crocodile tear 10,000 miles away can start a flood that will reach to our very doorstep here in Canada.

In reviewing the international scene, we must first see how the east-west conflict is likely to be resolved. The situation is very fluid. If we finally get a peaceful settlement of our differences in Korea, and come to terms with Russia on Germany and Austria, then we can expect a fairly drastic cut to our armament programme. This would assuredly be followed by a recession while we changed from a war to a peace economy. Russia knows that because of our high standard of living we are most vulnerable to attack through our economy. By destroying it they can hasten the collapse of our social structure, and then, like a plum, we will fall into the lap of communism.

An over-simplification, I agree, but I am confident that their purpose will not be achieved, because man cherishes freedom above all else. The fundamental freedoms that F. D. R. spelled out for posterity do exist in the western democracies, and will be fought for if need be.

I am forced to the conclusion that the struggle for power in Russia today will keep us off balance and the most we can hope for is a gradual lessening of tension between east and west with the result that less of our productive effort will be devoted to the manufacture of weapons of war. All these things will have an effect on our economy.

Management and Industrial Relations Tomorrow

What kind of problems is Management going to be faced with in the Industrial Relations field of tomorrow? You have probably read as many papers on the subject as I have, and the best I can do is to select a few of the issues that will be subject to collective bargaining in the United States first, and within a couple of years in Canada, as well. The list is far from complete and is introduced only to give you an idea of the type and extent of the Unions' demands, so that you will have a better understanding of Management's problems when they sit down at the bargaining table.

Some of the demands being made upon Industry are:

(1) Basic wage rates established on an industry-wide basis.

(2) Reduction of work week to 40-hours Monday to Friday, inclusive.
(3) Double time for work performed on Saturdays and Sundays.
(4) Shift differentials of 10c between 2nd. and 3rd. shifts.
(5) Triple time for work performed on Statutory holidays.
(6) Two weeks vacation paid after one year's service and additional vacation for longer service employees.
(7) Additional Statutory holidays.
(8) Paid sick leave amounting to at least 10 days per year with right to accumulate unused sick leave.
(9) Health and Welfare Plans — increased benefits for workers' families.
(10) Serverance Pay — One week for every year of service plus accumulated sick leave when employee is discharged or given indefinite lay-off.
(11) Guaranteed Annual Wage.
(12) Contributory Pension Plans.

This is a formidable list. Looking at it today Management finds it difficult to appreciate the Union's justification for these demands and looking back over the last decade we see similar demands which reflect a Union policy of wanting more, more and more. It is obvious that Management cannot continue to meet these demands without encouraging an inflationary economy. If this is to be avoided Management should view these demands with an eye to the psychological needs as well as the physical needs of the workers.

Now, I have been ranging over a very broad field and what I have said would be of little use, except to promote discussion, if I did not suggest some guide posts for Management in planning its Industrial Relations for the future.

The following points might well reinforce our present programme:

Firstly: Management's Industrial Relations philosophy should conform to its long term objectives, and Management should make sure that the philosophy is translated into consistent policies that are understood by all levels of Management, the Union and the worker alike.

For example:

If the long term objective is to undermine the Union, then the philosophy that I subscribe to would be out of place. On the other hand, if the long term objective is to reduce the areas of conflict between Management and Labour, then the philosophy I prescribe would be in order.

Policies within a Corporation are often inconsistent when they are drawn up at the divisional level and are not co-ordinated by the parent unit.

Secondly: Long range policies must be established well ahead of time.

For example:

Skilful handling of emerging problems cannot make up for neglect to adopt proper long range policies, but by developing policies well ahead of time you may be able to direct the course of events instead of being pushed by them. After all, policy is thinking before acting.

Thirdly: We should provide well trained and enlightened supervision and management sympathetic to the Company and its philosophy. This could best be done through a well balanced training programme which could include job economics, job instruction, employee relations and job methods training.

Fourthly: Management should take the initiative in developing areas of common interest in which Management, employees and their representatives can jointly work for their mutual benefit.

For example:

It is a regrettable fact that a lot of the initiative in this field comes from the Union executive. To regain this initiative Management should inject new life into the joint committees and develop other areas of mutual interest, such as job evaluation, merit rating, etc.

Fifthly: We should provide financial incentives that will accurately reflect in the worker's earnings the contribution he has made to the enterprise, and in particular initiate every possible non-financial incentive that will appeal to his psychological desires. There is tremendous scope in the latter area for developing committees of equal representation to deal separately with problems relating to production, suggestions, safety, maintenance, service, and many others. Encourage participation in competitive sports and social programmes.

Sixthly: We should recognize the inter-dependence of our engineering skills and our human relations skills.

For example:

The industrial engineer will come along and make changes to a machine and to the method of work to be adopted by the worker on that machine without considering what effect these changes will have on the attitude and behaviour of the worker. Human relations is not something apart from the technological environment. They must be integrated. It is my firm belief that by joint planning, the industrial engineer can modify the design of operations in line with sound human relations principles without violating sound engineering principles.

Seventhly: We should develop our Union relations so that they do not reflect feelings of superiority or paternalism on the part of Management. I think we should get together and operate on a man to man basis.

In developing my theme I have tried to show that we have not been attacking the real problem when we cater to only the physical needs of the employee — that the saying "Pay a man enough and he will be satisfied" may be true in the short run, but is certainly not true in the long run. The new and only sensible approach is to cater to the psychological needs of the employees. After all, we say we are a democracy, but democracy is participation and its aim is co-operative action. Its success lies in increasing the individual's sense of responsibility, so that he can "participate" with confidence in decisions determining his destiny. We have denied him the right of "participation", not because we have wanted to, necessarily, but because we have been unable to obtain the mutual confidence that is the pre-requisite of co-operation.

We have zealously guarded our Management prerogatives in the belief that to give up any of them voluntarily would be courting disaster. I subscribe to this view with reservations. I believe that in areas where Labour's and Management's interests do not conflict then the benefits to be obtained would more than justify the risk. Management's function is to supply the labour force with a quality of leadership that will increase our productivity and in turn raise our standard of living. This cannot be done without accepting that element of risk.

If we pursue this course, we will eventually build up such a feeling of mutual confidence that the areas of conflict today will become areas of mutual interest tomorrow.

In closing I would leave this quotation of Justice Brandeis with you:

> "*Success must be sought in business also in excellence of performance; and in business, excellence of performance manifests itself among other things in the advancing of methods and processes; in the improvement of products; in more perfect organization, eliminating friction as well as waste; in bettering the condition of the working-man, developing their faculties and promoting their happiness; and in the establishment of right relations with customers and with the community*".

The Tax Picture . . .

By A. W. GILMOUR, B.Comm., L.I.A. (McGill), F.C.I.S., C.A.,
Resident Partner, Clarkson, Gordon & Co., Montreal, P.Q.

Under the general heading of "The Tax Picture", the author reviews briefly some of the more striking developments in the field of taxation which have taken place in the last few years, and then refers to some of the changes introduced by the 1953 budget. In commenting on these changes, he considers them from the point of view of the company executive rather than that of the professional accountant.

IN DEALING with the subject of income taxes, it will be well, I think to refer, primarily to a little background which may afford more understanding of the reasons for some of the recent changes in legislation.

As most of us are aware, income taxes were introduced in Canada during 1917, and annual amendments made over a lengthy period of years resulted in the old Income War Tax Act becoming a most involved piece of legislation. Possibly the most outstanding features of this Act were its comparative brevity, the great number of discretionary powers given to the Minister of National Revenue, and the almost complete lack of any published regulations.

In the light of the present Act and regulations, we sometimes wonder how we operated under the old relatively primitive conditions, but we should always remember that it was through this old Act that Canada financed a very considerable portion of the cost of its participation in World War II.

However, by the end of the war the old Act had become overly complicated in many respects and it badly needed a complete overhaul. It has since received one, although many of us wonder whether it was necessary to go as far as we did.

About five years ago, the old Income War Tax Act, which had been in force for nearly thirty years, was put to one side and replaced by a completely new Act which rearranged the provisions of the earlier Act and at the same time, reworded them so completely that today, nearly five years later, he is a brave man who will claim to understand all of the various interpretations which may be given to some of these sections.

The Tax Collector's Change in Attitude

Further, during recent years the attitude of the tax collectors has also undergone certain important changes in their relations to taxpayers, and they have adopted what is probably a strictly logical attitude relating to the interpretation and application of the provisions of the Act.

The present administrators of the Income Tax Department interpret the provisions of the Act strictly in the way they consider most beneficial to the national revenue, irrespective of whether such interpretation may have been intended or even imagined when the Act was

passed, and irrespective of the fact that this new interpretation may conflict with business practices which have been in force in Canada for nearly thirty years.

The interpretation decided upon is then applied rigidly to all taxpayers unfortunate enough to be affected. Most taxpayers pay up and endeavour to change their way of doing business, if they can, to lighten the impact of the new interpretation. Other taxpayers who can afford it may challenge the interpretation and bring the matter before the courts. If they are unsuccessful, some may attempt to bring the matter before the Minister of Finance or Parliament to urge changes in the Act. If they can do this, well and good; if not, the new interpretation of the law is applied impartially in its full vigor.

Probably the best illustration of this recent practice occurred in the early part of 1950 when the Income Tax Department started to apply, generally, the powers they possessed under the Act to force a corporation to distribute its surplus. These powers had existed in the Act since at least 1927 but had been applied extremely sparingly. However, in 1950, they were applied in a much more general fashion and some corporations were compelled to disburse surplus accumulations over the protests of their directors.

The ensuing outcry was so loud, that shortly thereafter, the provisions of the offending Section 9-6 were taken out of the Act entirely and their passing was regretted by no one. At the same time the Income Tax Department lost a valuable instrument for use in extreme cases.

More recent examples relate to accrued interest on bonds bought or sold between interest dates and the treatment of provisions for returnable containers. Both of these practices have required amending legislation in the 1953 budget to restore long-existing interpretations.

We must also realize that the Income Tax Division of the Department of National Revenue is a government department charged with the collection of a very large amount of revenue. Consequently, the present practice of applying the most literal interpretation of the Act when it suits the interests of the revenues of our country is probably a strictly logical one. We can only hope that it is always made with the full knowledge and agreement of the Department of Finance who are charged with the responsibility of charting the general course of tax legislation in Canada.

One thing is certain, the result of this new practice is that law cases pile up and protests from all quarters pour into the Minister of Finance urging changes in legislation. All of this is terribly wasteful of time and money, both to the government and to the business community at large. It also raises the question whether a more businesslike method might not be for the head of the Income Tax Department to discuss the proposed interpretation with the head of the Finance Department and determine whether it is in the general interest of the

country to adopt such methods. If the proposed course is felt to be in the best interests of our country it should be adopted and the clamour for changes in law resisted. On the other hand, if the proposed change is not in the best interests of all concerned, the matter should be dropped and amendments to the Act correcting the situation recommended to Parliament at the next session. This at least would avoid the present practice of suddenly levying increased taxes upon numerous taxpayers and forcing them to expend time and money either fighting the assessment or urging amending legislation.

One other practical result of this new attitude on the part of the tax collector is that relationships between tax collector and taxpayer have been placed on a much more formal basis. The practice of discussing tax matters with that Department informally is usually no longer a profitable one, and most taxpayers now seem to prefer to keep the relationship distant.

In turning to the recent amendments to the Act, I do not propose to deal with every amendment. Instead, I will try to deal with a few of what I feel to be the more important changes.

During recent years the annual amendments to the Tax Act have constituted large bodies of legislation in themselves and the Amending Act for the current year is no exception, in that it contains nearly thirty-three pages of detailed changes. All of us are affected by these changes in some way, either as executives of corporations or as individual taxpayers, and the more we know about the subject, the less it is likely to cost us.

The present amendments to the Act contain some changes in the general rates of tax payable by corporations and individuals, some changes designed to clarify and tighten up the wording of certain sections, and other changes designed to reverse practices adopted by the Tax Department in recent months.

Corporation Taxes

Some small changes have been made in the taxes payable by larger corporations in that the effective rate of federal tax has been decreased to 20% of the first $20,000 of taxable income and 49% of income in excess of this amount. This compares with the former rates of 22% of the first $10,000 of taxable income and 52% of amounts in excess of this first $10,000.

This reduction in the rates payable by larger corporations, while most welcome, is scarcely likely to require any changes in thinking on the part of those responsible for planning the financing of larger companies. The taxes have been high and they still remain high.

However, a much more welcome and important change has been made in the rate of tax payable by smaller corporations whose taxable income does not exceed $20,000 in the year. Here the rate of tax has been reduced to 20% of the taxable income as compared to the old rate

of 22% of the first $10,000 of taxable income and 52% of the remaining amount. In any case, this change will result in an effective reduction of nearly 50% of the taxes previously payable by smaller corporations. This reduction, coupled with the increase to 20% of the Canadian dividend credit will have a considerable effect upon the benefits to be derived from carrying on a small business through the medium of a corporation in lieu of operating as a partnership or proprietorship.

Conversely, this change will have the effect of reducing somewhat the attractions of making an election to pay a 15% tax under Part IA of the Act.

In many cases where the executives of a smaller company are also substantial shareholders, it may be to their advantage to reduce somewhat the amount of salaries claimed by them and instead, commence drawing dividends upon which they may be entitled to claim the 20% Canadian dividend credit. At the same time, the action of paying a dividend in 1950 or a subsequent year will place the company in the position where it may elect to pay a 15% tax upon some portion of its post 1949 earnings at some future date if it so desires.

Accordingly, executives of smaller companies might be well advised to examine closely their present policies in the light of these changes in tax rates to ascertain whether it will be more beneficial to alter these policies to take advantage of these new rates.

One other interesting change which has been made relates to the way in which the lower rate of tax upon the first $20,000 of taxable income may be spread. Prior to 1953, only one company of a group of related companies could claim the right to pay the lower rate of tax upon the first $10,000 of taxable income. As a result of the 1953 amendments, the amount of income has been increased to $20,000 and this may be spread amongst a group of related companies in any desired manner. Thus, four related companies each earning $5,000 of taxable income need each pay only 20% tax whereas previously only one could pay the lower rate while the other three had to pay tax at the rate of 52%.

Related Companies

Because of the definite benefit to be derived from the lower rate of tax, executives of companies might do well to examine closely the definition of related companies contained in Section 36 of the Act, to ascertain whether their shareholders and organization are such that they may legitimately divide their operations among separate companies which will not be held to be related for purposes of the Act.

Subsidiary Companies

One further change affecting corporations relates to the amendment which permits the transfer of tax paid undistributed income from

a subsidiary company to a parent company by means of a stock dividend, so that the income so transferred retains its identity and may in turn be distributed to the shareholders of the parent company.

When Part I-A of the Act was introduced some three years ago, it permitted a corporation to elect to pay a 15% tax upon certain amounts of undistributed income which thereafter could be distributed free of further taxes to the shareholders in certain restricted manners.

However, in its earlier form this legislation was designed to assist companies whose shares were held directly by individuals; where the shares were held by another company the relief became more difficult to secure. Transfers of tax paid undistributed income from a subsidiary to a parent company had to be controlled most carefully to prevent the income losing its identity, and it was difficult for the parent company to transfer its combined tax paid undistributed income to its shareholders without their being required to pay tax upon some portion of the distribution made.

The present amendments now overcome this difficulty and a subsidiary can transfer its tax paid undistributed income to a parent corporation without it losing its identity, which in turn means that the parent company may transfer this to its shareholders in various manners which will escape taxation in their hands.

When we turn to the changes affecting individuals we find one or two which may offer interesting possibilities.

Changes in Rates

There have been some small reductions made in the rates of taxes payable by individuals, and while these reductions are most welcome, it must also be admitted they do not confer any great benefit.

Possibly, the change in the Income Tax Regulations whereby a dependent may reecive income up to $750 per annum and still qualify as being wholly dependent for purposes of the Act is more interesting, as it permits a taxpayer to get some income into the hands of a dependent and still claim exemption for the support of a dependent.

Those who are executives of a corporation might do well to consider employing their dependents for the summer months at a salary which does not exceed $750.

Canadian Dividend Credit

As already mentioned, the increase in the rate of the Canadian dividend credit from 10% to 20% does afford a very substantial reduction in the taxes payable on Canadian dividends by those fortunate enough to have such income.

One long term effect of this change will be to encourage Canadian Individual investors to buy Canadian preferred and common stocks in preference to foreign securities or even in preference to Canadian bonds.

Stock Options

For some years now the provisions of the Act levying tax upon the income of salaried executives have been getting stiffer and stiffer and have brought into the definition of income many border-line payments which formerly escaped taxation.

Section 5 of the Act provides that any benefit received by an official by virtue of his employment is deemed to be income for purposes of the Act, with the exception of the employer's contribution to pension plans and group medical plans. Similarly, other sections of the Act now provide that the more unusual types of receipts, such as retiring allowances, payments for loss of office, lump sum pension payments, disbursements made under non-competition agreements and the like, are all deemed to be income and are subject to tax, although the effective rate may be reduced somewhat in certain instances.

This year the Act has been further amended to provide that benefits derived by an executive under a stock option or stock purchase scheme are clearly brought into the definition of income and are made subject to tax.

At first glance this seems that the net of taxation has merely been drawn somewhat closer and levies more tax upon the already overburdened salaried executive. However, the method of taxation warrants further close study.

Briefly, the scheme of taxation adopted is to hold that when an employee acquires shares under a stock option or stock purchase scheme, he is deemed to have received a benefit from the employer in the year of acquisition, calculated on the difference between the market value of the shares at the time they are acquired, minus the price paid therefore. However, this benefit need not be included with other income of the year of acquisition, but instead, tax may be paid thereon based on the average rate of tax paid for the previous three years. Then, this special rate of tax may be reduced by an amount equal to 20% of the value of the benefit. In other words, the benefit is treated as though it were a dividend from a Canadian company, but the rate of tax payable thereon is fixed and is not cumulative as in the case of a dividend income. Further, it would seem that stock options may now be granted at a price less than the prevailing market value at the date of acceptance without conferring any benefit upon the employee at the date of accepting the option.

In view of the above it may well be that this new legislation relating to stock options offers an economical way to confer benefits upon senior executives, and is well worth careful study.

The Income Tax Act is one of the laws of Canada and we must abide by these laws and pay our fair share of taxes. However, by studying these laws and understanding them we may occasionally change our ways of doing business in some small degree to comply with new laws, and, perhaps, lighten the burden of taxes by so doing.

Business Growth and Current Trends . . .

By Alan N. Steiner, C.A.,
Management Consultant and Resident Director
J. D. Woods & Gordon Ltd., Montreal, P.Q.

Many political, economic and technological trends in business development are in evidence today in varying degrees of growth and influence. The author reviews these current trends, outlines their probable effects on business, and offers some suggestions as to how they should be approached.

PLANNING of any kind, whether it is on a personal basis or for some business project, involves some prediction of future conditions or events. No matter what we do, consciously or subconsciously we are taking into account our own appraisal of coming events. This peering into the future is an invigorating process thrust on us by personal circumstances or our method of making a living. Some people like it so well they actually seek it out. Many of the millions of patrons of the race tracks on this continent, contrary to general belief, are not really interested in improving the breeding of horses. They are attempting to predict the future for their own pleasure and gain. However, it is not my intention to tell you how to beat the horses. Nor do I intend to give you a complete blueprint of the economic future. If I could do either of these I would be too wealthy to be here.

No Future Form Chart for Management

If we may return a minute to the track, we find that the more successful horse players rely heavily on a document known familiarly as the "form chart". In it is detailed the past performance of each horse, showing the conditions, jockeys, competition, distance of races, and other pertinent information. These facts do not provide an exact measure of future behaviour, but they serve as a guide to some very fundamental planning. Management planning, unfortunately, has no formal form chart. Some businesses can obtain a fair indication of future activity on a short term basis by leads established in related trades. Sale of roofing or plaster has a close relationship to housing licenses issued a few months previously. In other businesses sales trends can be accurately charted and projected for short periods. But this type of guidance is relatively limited and becomes precarious if it is carried too far. There are, however, some rather subtle guideposts in management planning on a long term basis that are not universally recognized, or if recognized are not always accepted as factors in decisions. I refer to the economic, political, and technological trends in business development that have established themselves in recent years. Some of

these trends may be passing phases, while others will undoubtedly grow in extent and influence. I intend to discuss a few of these trends, primarily the technological ones. I will also attempt to outline what their effect will probably be on individual business, and finally make some suggestions as to how they should be approached.

Some of these developments relate specifically to Canada. Others first became apparent in the tremendous industrial economy of the U.S.A. but are beginning to be felt within our borders. None of them can be ignored. To complicate the picture, new factors are always showing on the horizon, such as the industrial applications of atomic energy. This may create an entirely new set of values, and we will have to start again from scratch. For practical reasons, I will confine my remarks to those influences that appear to have established relatively firm roots.

Canada and Population

The first of these is economic and concerns the rapid growth in population. By now, we have probably passed the fifteen million mark and some estimates can see this figure doubled in twenty or thirty years. This growth coupled with rising individual purchasing power, is making Canada a significant market. Many products that have been previously imported because of small market potential, can become the bases of thriving domestic industry. As population and purchasing power rise, the list of such products will grow longer. Economies of large scale production, so evident in the U.S.A., can then be more effectively accomplished in this country. More specialized production will also become practical. Closely allied to this is the growing trend towards decentralization of large corporations in the U.S.A. Many have realized that very large concerns can become cumbersome and slow, and have met this challenge of size by decentralizing on a regional basis. As Canada presents an increasingly attractive market, it will be included in the decentralizing plans on the basis of sound business practice, regardless of tariff policy.

Another definite trend is that the average age of the population is increasing. Aside from the added sale of lumbago cures and wheel-chairs, this trend should influence the production, merchandising, and advertising of many products.

Canada and Communications

One of the greatest problems in the growth of Canada has been in the communications field. Our relatively small population is spread over a distance of several thousand miles. Important developments are occurring to meet this difficulty, and many more are in sight that will have important repercussions on business operations. The introduction of domestic air mail reduced to two or three days exchange of correspondence that formerly required up to several weeks. Microwave relay

stations for transmission of television programmes are in operation from Toronto to Montreal and will ultimately be extended from coast to coast. These transmission circuits, besides allowing a large percentage of the population the controversial benefits of television, can also carry thousands of telephone calls or teletype services. This should lead to cheaper, more rapid communications. Together with this, more rapid transportation through air service has become commonplace in the last few years. Businessmen now travel all over the continent or to Europe with little loss of time. As well as increasing their productivity it allows more personal contacts with clearer appreciation of problems and more rapid, more informed decisions. Many of you may have read of the application last year of C.P. Airlines to the federal Transport Board to institute regular air cargo service between the east and west. Developments of this nature will affect only the lighter, more expensive merchandise at first, but will no doubt extend their scope with time. Improvement of roads, spearheaded by the Trans-Canada highway are long overdue. It appears reasonable that we shall follow the pattern seen below the border of building express highways when they are justified by the volume of traffic. This will undoubtedly result in better trucking service to carry heavier goods and to supplement air service. Trucking equipment is better and more improvements are still to come. In the meantime, it is quite clear that the railways have no intention of taking this competition lying down. Diesel locomotives are being introduced that are cheaper to operate than steam and require much less maintenance. Coal and oil fired gas turbine locomotives may also appear on the rails. Lightweight passenger cars and roller-bearing freight cars are already helping the railways' cause.

These developments in transportation are one of the most important factors in the future trends in Canadian business. As a result of improved transportation there will be a tendency for the final distributor of many items to operate on a hand to mouth basis knowing that merchandise stock can be replenished in twenty-four hours from some central location. Instead of each automobile dealer in the country throwing out every year a box or two of obsolete repair parts, the central warehouse may be required to throw out a carload. The cost of mistakes of over-production or manufacture of slow-selling goods will not be dissipated in small parcels throughout a merchandising structure. They will be in the manufacturer's or central distributor's hands to recognize and control.

Trends in Marketing

Turning to the marketing field, we can find many interesting trends but I will comment on just a few. In the retail grocery business the self-service arrangement has thrown heavy emphasis on advertising and packaging. Considerably more time and money is being spent on

product design and research. Distribution cost analysis is a developing technique in more progressive firms to analyze the costs of such things as small orders, methods of distribution and salesmen's calls. Selling methods (or buying methods) in industry seem to have changed in recent years. We hear less of the old time travelling salesman and more of the sales engineer. Government and private testing laboratories such as the National Research Council offer testing services to companies that cannot justify a laboratory of their own. Performance rather than persuasion makes the sale.

Automation, A Current Trend

One of the most important trends in manufacturing is the steady increase in the use of automatic machines and control devices. The pushbutton factory has become the subject of much discussion and controversy. Although this end product will probably not materialize in this country for some time, the automation trend is very subtle and has already begun to affect nearly every business to some degree. The use of pallets and fork lift trucks is a form of automation. Perhaps the best indication of this trend is the tremendous increase in recent years in the sale of instruments and other controlling devices. I saw an interesting example recently in a textile mill. Cloth passing over rollers in a finishing process was kept centered on the rolls through the medium of an electric eye at each side. As the cloth moved to the right, the eye on the right was activated. A mechanism was set in motion to return the cloth to the central position. In this way a very monotonous job was eliminated. More elaborate applications are found in filling and packaging machines. Still more complicated automatic processing is done by automatic screw machines and automatic lathes and tooling devices.

Fairly advanced use of this type of equipment will obviously bring with it a completely new set of management problems as well as solving or aggravating old ones. Servicing, maintenance, scheduling and controlling will be jobs of unprecedented importance. To effect economies, long runs of a fairly standard character will be a necessity. Errors in design or in the quantities produced will be far more serious than they have been in the past.

In the office clerical field mechanization is increasing. Electronic engineers predict further advances within the foreseeable future. Since World War II office machinery has been greatly improved, and the drudgery of many jobs has been reduced or eliminated. In accounting more emphasis is being placed on the interpretative functions as a guide to business decisions, rather than merely recording past events.

Old and New Materials

New materials and new uses for old materials should have far reaching effects in the future. Light metals, such as aluminum,

magnesium, and titanium for many uses are proving better and cheaper than the old standbys, such as iron or copper. The textile industry is experiencing a swing to synthetic fibers which will probably continue. Rayon, nylon, orlon, dacron, vicara and dynel will make inroads in the wool and cotton markets. New plastics will replace established materials in many fields.

These, then, are but a few of the many trends that have established themselves and must be considered in management planning. Whether they are good or bad developments is open to argument. Basically, they represent progress even if some of the repercussions may create new difficulties. They cannot be stopped or turned, and the wise enterprise will plan to live with them and take advantage of the new opportunities they offer.

The Impact on Industry

All industries will not be affected by these changes in the same way or to the same degree. Similarly, the pressure of the planning necessity is dependent on the nature of the business. The roasted peanut salesman may need only look a day ahead to estimate the crowd at tomorrow's ball game. At the other extreme we have the steel, chemical, and oil companies who must plan their raw material sources and productive facilities on a very long range view. There is also the problem in any generalization of this sort that some industries have brighter prospects than others because of the development of new products or changes in consumer tastes. No matter how efficiently the buggy whip manufacturer operates his plant or markets his product, he is in a serious declining market. My observations must be tempered by these factors as I am attempting to direct my remarks to some average enterprise in a varied and broad field.

One of the principal pressures of improved communications and mechanization will be on the internal organization structure of individual companies. Decisions will be a great deal more important and they must be made more quickly. As a result, the current trend towards the establishment of staff specialists will probably continue. In larger companies the chief executive will be assisted by a growing number of specialists in particular fields. Although they will have different backgrounds and experience they must co-ordinate their knowledge and efforts as a close team. Clear cut definitions of duties and responsibilities and lines of authority will be increasingly important. Methods of communication, both from an organizational and mechanical standpoint will require streamlining. Companies with too many levels of authority will become completely bogged down. Decisions of high importance will have to be made by technical experts at relatively low management levels. On the mechanical side, more widespread use of radio and television is assured to improve the rapid transmission of information. Many of these organizational problems exist today and

their seriousness cannot be overemphasized. Future developments promise to make them even more important as close teamwork becomes an absolute necessity.

Small errors in judgment by today's standards, will change to major mistakes. For this reason management will be less tolerant of mediocre people. While ambition and drive are commendable, they will be no substitute for imagination, skill at timing, technical knowledge, judgment and adaptability. Executives will require a far higher degree of training both in their specialized lines and the broad management field. The growing popularity of management training courses for businessmen indicates the interest in this latter type of education. Many of the Canadian universities either individually or in co-operative groups are offering these courses and they have been well received.

The working force will also be of a different character. There will be fewer workers per unit of output but the level of skill will necessarily be higher. With this will come a new set of problems of training, supervision, and general human relations. A reasonable comparison might be the difference between the infantryman in World War I and World War II. In the first war a man was ready for the trenches in a few weeks. In the recent unpleasantness each man was trained for many months in highly technical phases of warfare. In action he represented a one-man army. In the same way worker training will be technical, specialized, and will take considerably more time. Work should be more interesting and workers more enterprising. Incentives should play an increasingly important role in remuneration. The use of pre-determined time standards will continue to become more widespread. Where automation makes serious inroads this type of plan may be supplemented with group incentives based on machine utilization, maintenance time, material usage, or general overall results. Supervision will require new skills, particularly in dealing with better educated and more demanding employees.

Such problems as material handling, inventory control, production control will grow in importance. Mistakes in any of these fields could ruin a business as production will be faster and delays more costly. New systems, better communications, less paperwork, and delegation of decision-making authority farther down the line should be natural developments to meet these material and production control problems.

Design and production research promise to continue to play an increasingly important part in management. As I said earlier, purchasers will be more interested in inherent qualities and be in a better technical position to judge competitive products. Once again mistakes will take on new seriousness. As more automatic machinery is introduced, production designs will be completely changed. In some cases new materials will be required. Companies that have made considerable progress on automation find that the assembly process has been the chief headache and this type of work seems to defy automatic

methods. Parts can be stamped, machined, or moulded, but it requires somebody to put them together to form the finished article or assembly. A complete redesign of the product is required to try to design the assembling operations out of the product. This work requires the type of ingenuity and skill that will always be in short supply.

In the office work field the pressure for faster production of more interpretative information will have an increasing impact for the individual firm. I have no doubt that many of you are already aware of these demands. This growth in the importance and complexity of office work will be attended by new difficulties. Further mechanization will help to offset the widening demand for statistical research. The upward trend of wages for clerical help should also accelerate this trend. However, mechanization will not provide the whole answer. Office work does and will continue to warrant the scrutiny normally reserved for plant operations. Here organizational lines of authority and delineation of duties and responsibilities are especially important. Practically continuous studies of work flows, forms, records, and procedures may be necessary to eliminate bottle-necks and to establish equitable work assignments. Many of the larger companies have recognized the importance of this need by setting up departments devoted exclusively to the review of systems and procedures. Development of performance standards with or without incentives is also gaining interest in the office field. As office work becomes more complex, the office manager will require special skills in scheduling, work simplification, and control of the work that comes within his sphere. The office workers will also be of a higher calibre and better trained. This will result in a more advanced human relations approach. Job evaluation will become a necessity to serve as the basis of a rational salary structure.

As competition becomes keener and sales and production decisions more vital, cost accounting will take on increasing importance. The interpretative phases of accounting will be highlighted. The current growing interest in the subject of marginal costing is indicative of this trend. Fixed overheads will comprise an increasing proportion of costs as more equipment and less labour is used. This will have the effect of intensifying the profit or loss potential above or below the breakeven point. The cost accountant will play his part in these interpretations and he will require flexible thinking and a thorough knowledge of new techniques.

These are but a few of the ramifications of the more obvious growth potentials and established trends of business. I do not pretend that this is a complete list but it may serve to point up some of the conditions that lay ahead. Some of them you may like, others you may not. But it is not a case of resistance to or compliance with these developments. As one authority on the subject said "the only question

is whether to be ahead of the parade or behind it — not whether there's going to *be* a parade. That's settled."

How to be "Ahead of the Parade"

What should the individual company do about all this? The answer is certainly not to throw up your hands and say that we will worry about these things when they come. Most of these influences are already here in some form and will quietly grow in importance year by year. If they are not approached now you may find yourself behind the parade, — and that can have dire consequences. The answer is to start using the techniques that will be a necessity in future on the problems of today. Planning, I believe we all agree, should be formalized and on a continuous basis. But planning should not only be for 'what we are going to do.' It should also include 'how we are going to do it'. In business this means recognizing the technological and economic trends that are growing in influence, the methods of coping with these changes, and putting them into effect at the earliest opportunity. Deal with the present problems now with an eye to the future problems.

The individual firm can do a great deal now to prepare for tomorrow. In approaching the new conditions and influences I have outlined, a company should be flexible in its thinking and able to execute decisions wisely and quickly. To do this it must be in a position to draw on factual information and technically skilled personnel. In discussing the trends in organization structure I touched on the use of staff specialists each expert in their own fields, the development of more clear-cut definitions of lines of authority and responsibilities, and the necessity of making decisions at relatively low management levels. These principles together with good communications, simple procedures, and a workable human relations policy result in the flexible, hard-hitting company that can recognize new developments and plan scientifically for any eventuality. The advantages to be gained from this type of organization structure apply equally as well to today's conditions and problems as they will to tomorrow's. So why wait until tomorrow to put it into effect.

While the future growth and apparent trends in business are going to have important effects, I do not think we should be unnecessarily awed by them. By applying proved organization methods we can melt the new conditions as they arise.

Student Section . . .

Comments by J. D. Campbell, C.A. R.I.A.

ACCOUNTING I — 1953 EXAMINATION

QUESTION II (25 marks)

Jones and McCarthy decide to amalgamate their businesses and form a partnership on January 1st, 1952. The following assets were introduced into the partnership at valuations agreeable to the partners:

	Assets Introduced by	
	Jones	*McCarthy*
Cash	$ 1,000.00	$ 3,000.00
Truck	1,500.00	
Land		500.00
Building		4,500.00
Merchandise	8,040.00	2,780.00
Accounts receivable	460.00	220.00
	$ 11,000.00	$ 11,000.00

It was agreed that profits would be shared in the ratio of contributed capital. A trial balance of the partnership general ledger at December 31, 1952 was as follows:

	Dr.	*Cr.*
Cash in bank	$ 5,550.00	
Accounts receivable	1,630.00	
Land	500.00	
Buildings	6,000.00	
Merchandise inventory (Jan. 1, 1952)	10,820.00	
Truck	1,500.00	
Furniture and fixtures	840.00	
Accounts payable		$ 2,463.00
Bills payable		1,000.00
Wages payable		140.00
Capital account — Jones		9,170.00
— McCarthy		7,564.00
Sales		93,360.00
Merchandise purchases	81,640.00	
Expenses:		
Advertising	560.00	
Electricity	125.00	
Fuel	237.00	
Insurance	330.00	
Miscellaneous	360.00	
Property taxes	185.00	
Truck repairs	340.00	
Wages — truck driver	960.00	
— sales clerks	2,120.00	
	$113,697.00	$113,697.00

Provide for depreciation on original cost on trucks at 20%, building at 5% and furniture and fixtures at 10%. Provide a bad debt reserve equal to 10% of

the outstanding accounts receivable. Inventory at December 31, 1952 is valued at $12,988.00. The insurance expense of $330.00 includes an amount of $270.00 for a three-year fire insurance policy which expires December 31, 1954. During 1952 the partners' drawings were charged against their capital accounts.

PREPARE

(1) Profit and Loss Statement for the year ending December 31, 1952.
(2) Balance Sheet as at December 31, 1952.

SOLUTION TO QUESTION II

Jones and McCarthy
Profit and Loss Statement
for the year ended 31st December 1952

Sales		$ 93,360.00
Less cost of sales		79,472.00
Gross trading margin		$ 13,888.00
Less operating expenses:		
Advertising	$ 560.00	
Electricity	125.00	
Fuel	237.00	
Insurance	150.00	
Miscellaneous	360.00	
Property taxes	185.00	
Truck repair	340.00	
Wages, truck	960.00	
Sales clerk	2,120.00	
Depreciation	684.00	
Bad debts	163.00	
		$ 5,884.00
Net operating profit		$ 8,004.00

Jones and McCarthy
Balance Sheet
as at 31st December 1952
Assets

Current			
Cash on hand and in bank		$ 5,550.00	
Accounts receivable	$ 1,630.00		
Less accumulated provision for bad debts	163.00		
		$ 1,467.00	
Inventory of merchandise		12,988.00	
Prepaid insurance		180.00	
			$ 20,185.00
Fixed			
Land		$ 500.00	
Buildings	$ 6,000.00		
Less accumulated depreciation	300.00		
		$ 5,700.00	
Furniture and fixtures	$ 840.00		

Less accumulated depreciation	84.00		
		$ 756.00	
Truck	$ 1,500.00		
Less accumulated depreciation	300.00		
		$ 1,200.00	
			$ 8,156.00
			$ 28,341.00

Equities

Current liabilities			
Accounts payable		$ 2,463.00	
Bills payable		1,000.00	
Wages payable		140.00	
			$ 3,603.00
Proprietorship			
Jones			
Investment 1 January 1952	$ 11,000.00		
Less drawings	1,830.00		
	$ 9,170.00		
Profit for year	4,002.00		
		$ 13,172.00	
McCarthy			
Investment 1 January 1952	$ 11,000.00		
Less drawings	3,436.00		
	$ 7,564.00		
Profit for year	4,002.00		
		$ 11,566.00	
			$ 24,738.00
			$ 28,341.00

COMMENTS

This question was answered well in the majority of cases and the average mark obtained was 20 out of a possible 25.

The major difficulty which was noted in respect to the answers submitted for this question was where the student failed to appreciate the interrelationship between the profit and loss statement and the balance sheet. This was indicated where depreciation and a provision for bad debts were not reflected in the profit and loss statement but were given effect to in the balance sheet presented. In certain instances the accrued liability covering wages was treated as an operating expense and also shown on the balance sheet as a current liability.

The second major defect in the solutions presented was that the student failed to provide the detail of the changes in the proprietorship accounts which had taken place during the year. In a large number of cases no reference was indicated on the statement as to the item of drawings of the respective partners.

The form of the statement in general was good.

The wording of the question left the computation of the depreciation on buildings questionable and, therefore, an alternative solution was acccepted as correct.

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